

HOW THEY CLOSED

TSE	9024.45	+99.71
CDNX	3269.84	+45.70
DOW	10,470.23	+70.91
NASDAQ	2904.38	+149.04
GOLD (N.Y.)		Closed
DOLLAR	64.94	+0.23
PRIME RATE	7.50	UNCH

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The Gazette BUSINESS

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SATURDAY, NOVEMBER 25, 2000

Jitec is no trailblazer: report

Leasing firm has fewer than 50 clients for its computer terminals, accountants say

DON MACDONALD
The Gazette

A confidential review of Jitec Inc.'s business found the embattled Nuns' Island company has little in the way of new technology or ongoing research and development and faces stiff potential competition in its market segment.

The review also found that Jitec has less than 50 users of its service.

The study, commissioned by Jitec's board of directors, was carried out by consultants from the accounting firm of PriceWaterhouseCoopers. Their report, dated Nov. 17, was ob-

tained by The Gazette.

The report's observations about Jitec's technology are at odds with the company's promotional material, comments by the former chief executive Benoit Laliberté and a management information circular distributed to investors in advance of the company's report.

"We saw neither technologies nor business processes that were radically new or difficult to copy or develop," the report states. "Components used in Jitec products are readily available and often standard."

"While clever and original, the pack-

aging and assembly done by Jitec is within the skill sets of many, is not very difficult to do, and requires little funding for a prototype."

The PriceWaterhouseCoopers review also found little evidence of research activity in the company.

"We did not see any patents or evidence of significant research and development," Laliberté has said in interviews that Jitec has been working intensively on developing its technology for four years. And the management information circular that Jitec issued May 16 promised that \$2.5 million "would be

allocated for the technological development program as a whole over a 30-month period beginning on July 1."

The report, signed by PriceWaterhouseCoopers senior vice-president Bernard Brunet, also identifies a half-dozen competitors that are currently addressing the same or similar market "space" as Jitec in the U.S.

The report also says technology giants such as IBM and Oracle are participating in the segment as well, but tend to focus on larger enterprises. "In North America, competitors in Jitec's space are numerous," the report states. "However, Jitec could have an

advantage in being a leader in the Canadian market and finance its competitors via securing a dominant position in Canada or Quebec."

The report adds: "Many of the vendors in this market are targeting larger enterprises than SMEs (small and medium-size enterprises), which differentiates Jitec from these players."

However, there is always the possibility that larger vendors such as Microsoft, IBM or Compaq, will decide to address the SME market more aggressively.

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C-MAC's Mr. Fix-it

Dennis Wood transformed local fledgling firm into an international powerhouse

ALISON MACGREGOR
The Gazette

It's a short distance from the east-end neighbourhood where Dennis Wood grew up to his office on the 10th floor of a tiny building on Sherbrooke St. W.

But the journey between the two places has been long and winding — taking Wood through much of North America, Europe and Asia.

Standing beside a floor-to-ceiling window overlooking the city, Wood points out the Centre-Sud district he and his mother moved to after arriving here from England 52 years ago in the middle of a snowstorm.

"We arrived on the night train from New York, after traveling at sea for seven days," the 61-year-old chief of C-MAC Industries Inc. said in an interview in an office decorated with stuffed fowl and photos of the private island in the Eastern Townships where he hunts pheasant.

"I ended up living on Larigue (St.). It's much nicer now. It's quite rare these days. I am convinced I was probably the first skiing, freestyle, red-blooded English person that anybody had ever seen in my neighbourhood," he said.

"I have nothing but great things to say. People adopted me and treated me as one of their own. I was very fortunate. I learned how to speak French very quickly."

Wood, whose academic career ended with high school, has learned a lot of things over the years, especially how to excel in a world awash in costly MBA and engineering degrees.

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RONALD ALLEN H. GAZETTE

Dennis Wood, president and CEO of C-MAC Industries, says his greatest strength is taking broken things and making them work.

New economy could fuel a soft landing

With the U.S. heading for what he calls "a soft landing with a thud," economist Peter Dungan is betting that even a sharp slowdown in growth won't touch off a North American recession over the coming year.

Indeed, Dungan and his colleagues at the University of Toronto's Policy and Economic Analysis Program predict that Canadian growth, boosted by substantial tax cuts, will be robust enough over the next five years to pull unemployment down by a little each year.

The forecasts were unveiled this week at a PEAP conference on the prospects — and risks — facing the Canadian economy over the next five years. Growth is forecast to slow from this year's robust 4.8 per cent, but only to 4 per cent in 2001, with inflation remaining low and unemployment edging down to an average of 6.6 per cent next year.

The news isn't completely cheery, though. Dungan, like a number of other economists, expresses real skepticism that Canada will match the recent boom in U.S. labour productivity.

Productivity — how much more an average worker can produce in an hour —



JAY BRYAN

is a key to rising living standards, since a rise in productivity makes it possible for a firm to absorb a larger rise in wages with no penalty to its profitability.

Growth in U.S. productivity boomed over the past five years, more than doubling previous performance to grow by an average of 2.5 per cent each year. But as Andrew Sharpe and Lella Garratt note in a new analysis for the Centre for the Study of Living Standards, growth of Canadian labour productivity actually dropped slightly in this period, averaging just one per cent annually.

The Canadian figure showed a sharp increase this year, but this phenomenon is so new that there is still doubt that it is a sign of permanent improve-

ment. One reason for skepticism is that companies that make computer and Internet equipment produce a large part of the U.S. productivity miracle and such companies are a much smaller part of the Canadian economy.

Indeed, Dungan points out that there are reasons for doubting that even the U.S. performance, which has been strong for several years, is permanent. For example, a long decline in the U.S. unemployment rate has forced employers to use labour more efficiently, but this factor won't continue producing benefits now that unemployment has stopped falling.

While the productivity debate might seem to be a theoretical concern that doesn't have a lot of immediate impact, it could have a strong influence on how sharply monetary authorities in the U.S. and Canada must rein in economic growth over the coming months.

Both the U.S. Federal Reserve and the Bank of Canada want to slow the economy enough to squeeze the inflationary pressure of a long economic boom and skyrocketing energy prices, yet not to bring on a recession.

If productivity keeps growing rapidly, it offsets the inflationary influence

of rising wages and makes it less necessary to slam on the economic brakes with higher interest rates.

How does this work? Here's an oversimplified example: If my productivity remains unchanged this year and I receive a 2 per cent raise, my company might try to raise the price of whatever I produce by approximately 2 per cent to recoup the higher cost of my labour.

On the other hand, if my productivity rises by 2 or 3 per cent (roughly the recent U.S. experience) then not only will there be no price increase, but the price might actually fall a bit since my output has increased more than my wages. I make more money, consumers benefit and the company profits by selling more with a lower price. That's the magic of higher productivity.

The big question is whether that magic has really arrived in Canada. The jury is still out, but Sharpe, who has been studying this phenomenon for years, thinks there is reason for optimism. "What happens in the United

States spills over to Canada, although often with a lag," he and Garratt write in their analysis, and Canada's high-tech sector has been growing very rapidly in recent years.

One caution, though, is that high tech is good for the economy, that doesn't mean governments can necessarily outpace the economy by subsidizing high-tech industries.

At the PEAP conference, economist Jack Mintz of the University of Toronto and the C.D. Howe Research Institute noted that even in a growing industry,

more companies are losers than winners, so governments very rarely invest taxpayer money productively. That's especially true of Quebec's very badly designed subsidy program for E-commerce, which favours one real-estate developer at the cost of hurting many others.

"It's a bit of a joke," Mintz said, and he's not optimistic that Quebec's proposal for a heavily subsidized microchip plant will be any more successful.

Productivity will influence how much monetary authorities rein in growth.

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